

# Mexico Flash

## No change in fondeo rate with a less hawkish tone

- **The recent decrease of inflation, as expected by Banxico; the lack of evidence of second round effects on prices and the absence of new shocks weaken the upward risks in the short term.** Even it is mentioned that it is probable that inflation will be below 4% at the end of the year.
- **Banxico** keeps the link between its stance and the downward trend in inflation, although there is no mention about the proximity of a rate adjustment.
- The balance of risks of domestic activity deteriorates marginally in the short term as a result of the US fiscal cliff.
- We maintain our perspective of a protracted monetary pause in a scenario of inflation reduction below 4% during the first half of 2013 and a 3.0% GDP growth. However, if inflation risks develop a preventive rate hike cannot be dismissed.

Chart 1

### Principal messages in monetary policy statements

	October 26	November 30	Assessment*
<b>Global context</b>	<ul style="list-style-type: none"> <li>• <b>Risk balance for global growth deteriorates further</b></li> <li>• Highlights: i) Uncertainty about the size of the fiscal adjustment in the US; and ii) Contraction in economic activity in the euro zone</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Downward risks for global growth remain</b></li> <li>• Highlights: i) The possibility of a fiscal adjustment in the US is already affecting its private investment.</li> </ul>	<b>The pessimistic tone in global output remains, focused on the US</b>
<b>Economic Activity</b>	<ul style="list-style-type: none"> <li>• Risk balance for growth <b>continued to deteriorate</b>, as reflected by the increased downward risks for the global economy, and <b>in particular for the US.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Risk balance for growth <b>deteriorates marginally in the short term</b>, as reflected by the increased downward risks for the global economy, and <b>in particular for the US.</b></li> </ul>	<b>Downward risks increase</b>
<b>Inflation</b>	<ul style="list-style-type: none"> <li>• <b>If the downward changes in the headline and core inflation trends are not confirmed an upward adjustment will have to be made <u>soon</u> to the reference rate.</b></li> <li>• The upward risks have increased in the short term. In the medium term pressures have reduced.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>If the downward changes in the headline and core inflation trends are not confirmed, an upward adjustment will have to be made to the reference rate.</b></li> <li>• The upward risks in the short term have <b>reduced marginally.</b></li> </ul>	<b>Fall in inflation in line with expectations suggests a reduction of short term risks</b>
<b>Policy decision</b>	0.00	0.00	<b>Less hawkish tone</b>
<b>Policy rate</b>	4.50	4.50	

\* Interpretation by BBVA Research of Banxico's opinion in accordance with the latest monetary policy statement.

Source: BBVA Research and Banxico

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